

**CALENDAR ITEM
C124**

A	Statewide	06/23/11 Bid Log 2010-015 WP415E, RA# 31210
S		S. Meshkati, D. Brown

**REQUEST AUTHORITY FOR EXECUTIVE OFFICER TO SOLICIT PROPOSALS FOR
FINANCIAL AUDIT CONSULTING SERVICES, AWARD AND EXECUTE
AGREEMENTS REGARDING AUDIT OF ROYALTY PAYMENTS FOR STATE GAS
LEASE LOCATED IN SACRAMENTO COUNTY**

PARTY:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202

BACKGROUND:

Over the past several months, staff has been reviewing the royalty payments for PRC E415.1 (Rio Vista gas field). Rosetta Resources (Rosetta) has been the operator of this lease since 2006. Monthly royalty statements have been provided to the State on an ongoing basis. These include a summary list of chargeable expenses for the month but have not included any supporting details. Staff has focused on the expenses and has requested backup information to support these chargeable expenses. Staff has conducted a preliminary and partial review of these documents as well as the easement and lease agreements and various other legal documents governing the relationship between Rosetta and the State, which are also before the Commission at the June 23, 2011 meeting. Staff has determined that an audit is required to thoroughly review the chargeable expenses and validate the accuracy and applicability of these charges against State's revenue to ensure that the appropriate royalties have been paid. It is anticipated that correcting these chargeable expenses may result in potential recovery of royalty underpayments.

In March 2011, Rosetta notified staff of its intent to assign the above lease to Vintage Petroleum. Rosetta has also indicated their desire to separate the assignment from this current review/audit and not to let this review delay their assignment to Vintage. As such, staff has requested that Rosetta post a bond for \$4,000,000 to cover the potential recoveries to which they have agreed. Additionally, to accommodate Rosetta's request and not detract from current audit priorities by the Commission's very limited auditing resources, staff has requested that Rosetta fund the contracting of a third party auditing

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firm/individual to assist staff in their review/audit. Rosetta has agreed to enter into a Reimbursement Agreement for \$100,000 to cover those costs.

PROPOSED ACTIVITY:

Staff requests authority to solicit proposals, award and execute an agreement with an independent oil and gas financial audit firm/individual to review and analyze the historical royalty payments and their associated chargeable expenses for the period of 2006-2011 for State gas lease E415.1 located in Sacramento County. The selected firm/individual will work directly for the Commission staff and shall enter into confidential relationships with the applicant and others to acquire the necessary information and documents upon which to base their findings. .

Consultant selection shall be conducted consistent with procedures specified in the State Contract Manual. All costs shall be recovered from Rosetta Resources.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

2. Approval of this item by the Commission does not constitute approval of the proposed lease; it only authorizes consultant contracts for audit of royalty and expense evaluation and audit services.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code Section 6106 (Delegation to execute written instruments)
- B. Public Contract Code Sections 10339-10345
- C. State Contract Manual (rev. 10/05)
- D. Government Code Section 19130
- E. California Administrative Code Title 14 section 15045

IT IS RECOMMENDED THAT THE COMMISSION:

1. Find that these activities are exempt from the requirements of CEQA pursuant to Title 14 California Code of Regulations 15060(c)(3) because

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these activities are not projects as defined by Public Resources Code section 21065 and Title 14 California Code Regulations 15378.

2. Find that the services are of limited duration and are of such urgent, temporary and occasional nature that the delay in their implementation under civil service would frustrate their very purpose as specified in Government Code section 19139(b)(10)
3. Authorize the Executive Officer or his designee to solicit proposals, award and execute contracts for royalty and expense evaluation and audit services in accordance with state policies and procedures.
4. Authorize the Executive Officer or his designee to enter into an agreement with Rosetta Resources to cover costs incurred in the performance of this work.